

Rating Rationale

September 22, 2022 | Mumbai

Highways Infrastructure Trust

'CRISIL AAA/Stable' Converted from Provisional rating to Final Rating

Rating Action

| | |
|---|---|
| Total Bank Loan Facilities Rated | Rs.800 Crore (Reduced from Rs.1000 Crore) |
| Long Term Rating | CRISIL AAA/Stable (Converted from Provisional Rating to Final Rating) |
| Rs.650 Crore Non Convertible Debentures | CRISIL AAA/Stable (Converted from Provisional Rating to Final Rating) |
| Rs.250 Crore Non Convertible Debentures | Provisional CRISIL AAA/Stable [^] (Withdrawn) |

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

[^]A prefix of 'Provisional' indicates that the rating centrally factors in the strength of specific structures and is contingent upon occurrence of certain steps or execution of certain documents by the issuer, as applicable, without which the rating would either have been different or not assigned ab initio. This is in compliance with a May 6, 2015 directive 'Standardising the term, rating symbol, and manner of disclosure with regards to conditional/provisional/in-principle ratings assigned by credit rating agencies' by Securities and Exchange Board of India (SEBI) and April 27, 2021 circular 'Standardising and Strengthening Policies on Provisional Rating by Credit Rating Agencies (CRAs) for Debt Instruments' by SEBI

Detailed Rationale

CRISIL Ratings has converted its provisional rating to a final rating of '**CRISIL AAA/Stable**' on the long-term bank facilities and non-convertible debentures (NCDs) of Highways Infrastructure Trust (HIT). CRISIL Ratings has also **withdrawn** its rating for proposed long-term bank facilities of Rs 200 crore and proposed NCDs of Rs 250 crore upon request from the trust as these are not expected to be raised. The withdrawal is in line with CRISIL Ratings' policy on withdrawal of rating on bank loans and NCDs.

HIT is an infrastructure investment trust (InvIT) of road sector assets sponsored by Galaxy Investments II Pte. Ltd, (Galaxy or sponsor, rated CRISIL AA/Stable), which is invested in by funds, vehicles and/or entities managed and/or advised by Kohlberg Kravis Roberts & Co. LP and/or its affiliates (collectively 'KKR'), with Virescent Infrastructure Investment Manager Pvt. Ltd (VIIMPL) as its investment manager, Virescent Renewable Energy Project Manager Pvt. Ltd (VREPMP) acting as project manager and Axis Trustee Services Ltd acting as trustee.

The rating action follows receipt of required documents. HIT filed the final placement memorandum (PM) with Securities and Exchange Board of India (SEBI) on August 22, 2022, and subsequently listed on August 25, 2022. Additionally, Galaxy has also transferred the project special purpose vehicles (SPVs) to HIT. The company has also signed and shared the executed documents for bank loan facilities, while executable version of debenture trust deed (DTD) has been provided. CRISIL Ratings believes that the proceeds from draw down of rated debt will be utilised largely towards refinancing of loans at project SPVs in line with the purpose of debt as specified in the documents. HIT has already availed disbursement of Rs 265 crore from ICICI Bank Ltd, of which, Rs 262.9 crore has been utilised to prepay external debt of Ulundurpet Expressways Pvt. Ltd (UEPL). It is expected to avail balance disbursement against term loans and NCDs and refinance entire SPV debt over the next few days.

There have been certain modifications/additions in the terms of long-term bank facilities and NCDs vis-à-vis at the time of rating assignment on March 11, 2022 and extension of validity on September 7, 2022. These are highlighted below:

- Debt amount has been reduced from Rs 1,900 crore to Rs 1,450 crore
- Reduction in debt tenor to 13.5 years from 18 years
- Structured repayment of long-term bank facility to be spread over 13.5 years with maturity in fiscal 2036
- Issuance of NCDs in two series. Series 1 (Rs 400 crore) will have minimal quarterly redemptions with bullet repayment of 97% in fiscal 2026, while Series 2 (Rs 250 crore) will also have minimal quarterly redemptions with bullet repayment of 82.5% in fiscal 2030.
- This exposes the company to refinancing risk. Nevertheless, the risk is mitigated by tail of 18 years and 14 years at the end of the tenure for series 1 and 2, respectively, given long balance life of few road assets, ability of sponsors in refinancing and healthy revenue potential of the stretches
- Increase in threshold for financial covenants and finalisation of consequences thereof
- Minimum DSCR to be 1.35 times up from 1.30 times.
- Additional covenant of maintenance of net debt to enterprise value at 49% or below

- The breach of above covenants will be an event of default (EOD) under the financing agreements and lenders/ trustee have a right to take consequent actions, including immediate acceleration of the facilities, as per the terms of the financing agreements.
- Addition of a cash trap event, which is to be triggered if DSCR falls below 1.40 times and to be released once DSCR reaches 1.60 times for two consecutive quarters. This ratio will be calculated on a quarterly basis for the trailing twelve-month period.
- Cash sweep to the extent of negative impact on tollable traffic on account of an alternate route to the project roads against DSCR breach of 1.30 times earlier.

Terms of the transaction are now final and the credit risk profile continues remain comfortable. CRISIL Ratings believes that the DSCR for the rated debt instruments is strong and is expected to remain well above the covenants, provided in the debt terms, throughout the debt tenure. Hence, probability of the occurrence of breach of financial covenant, and subsequently EOD is minimal. Any change in debt metrics or toll collections leading to lowering of minimum DSCR will be a key rating sensitivity factor.

The rating continues to reflect favourable location and geographic diversity of the stretches being acquired, and healthy revenue visibility given strong track record of toll collection and annuity receipt. The assets have strong operational track record of 7 to 13 years as well as strong counterparties with 4 out of 6 concessions from National Highways Authority of India (NHAI, rated 'CRISIL AAA/Stable'). These, coupled with adequate leverage, will result in strong debt protection metrics. As per the terms, the debt is expected to be capped at 49% of the trust's valuation. Additionally, debt terms require maintenance of a three-month debt service reserve account (DSRA), six-month major maintenance reserve account (MMRA), cash trap if DSCR falls below 1.40 times providing liquidity cushion. The rating also derives strength from the experience of KKR and services provided by, Highway Concessions One (HC1) to VREPMPL and the assets.

These strengths are partially offset by susceptibility of toll revenue to volatility in traffic volume, development or improvement of alternative routes or modes of transportation that could impact revenue and in turn DSCR. The DSCR will also remain susceptible to volatility in operations and maintenance (O&M) costs and interest rates.

Analytical Approach

CRISIL Ratings has combined the business and financial risk profiles of HIT with its underlying SPVs. This is because the trust is expected to have direct control over these SPVs and will infuse funds in them (in the form of shareholder debt) to prepay outstanding debt. Furthermore, the SPVs will distribute their surplus cash to the InvIT, in the form of interest and repayment (on shareholder's debt/ debentures), dividend or return of capital through capital reduction, leading to highly fungible cash flows. Also, as per the financing terms, the cap on borrowings has been defined at a consolidated level; aggregate consolidated net debt for the InvIT and its SPVs is restricted at 49% of the enterprise valuation.

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

Healthy operational track record of assets with geographic diversification

The portfolio comprising of six projects in different states benefits from asset and geographical diversification. Additionally, the projects have strong counter parties - NHAI for four projects and Ministry of Road Transport and Highways (MoRTH) and Madhya Pradesh Road Development Corporation Ltd (MPRDC) for one each. The toll road projects have long tolling track record between 7 to 13 years, while the annuity projects have track record of receiving 25 and 19 semi-annual annuities without any material deduction. Around 84% of revenue is contributed from 4 toll projects, while the remaining comes from 2 annuity projects.

The toll stretches are situated along major industrial and tourist hubs and connect important cities such as Godhra, Jodhpur, Indore, Bhopal and Chennai to major ports on the western (Kandla and Mundra) and eastern (Chennai and Pondicherry Port) seaboards. The revenue is moderately concentrated across 3 stretches, each contributing 20-25% of overall revenue. Nevertheless, the stretches are spread across six key states that contribute substantially to the total gross state domestic product (GSDP). The trust is, thus, expected to benefit from healthy traffic potential. Balance concession period of the projects ranges from 4 to 21 years. While the concession for three of the stretches is expected to be over in next 4-5 years, their contribution to the initial portfolio is expected to be 35-40%. Hence, long term revenue visibility is driven by other three assets having larger share of revenue. Furthermore, the trust is expected to continue to look for new opportunities of adding assets and hence, further diversifying the portfolio over the medium term.

2 of the 4 toll projects have an annual toll rate escalation with a fixed increase of 3% and a variable portion equal to only 40% change in wholesale price index (WPI), limiting dependence on WPI, thereby supporting revenue, while one project has a fixed toll rate hike of 7% and the remaining one is linked directly to the WPI. Toll revenue for all toll assets except UEPL grew at a compounded annual growth rate (CAGR) of 10-16% over fiscals 2017 to 2022 and was 3.5% for UEPL.

While the long-term traffic growth on the portfolio assets is adequate, the traffic experienced de-growth of ~3-5% in three out of four toll projects in fiscal 2022 on account of the pandemic-related lockdowns. The remaining one stretch witnessed growth of 16%.

Strong debt protection metrics, with provision for cash sweep and creation of DSRA and MMRA

Financial risk profile is expected to be healthy with initial debt of Rs 1,450 crore. Further, CRISIL Ratings has also factored in additional debt of around Rs 400 crore for funding major maintenance. The resultant average debt service coverage ratio (DSCR) is expected to remain healthy through the tenure of the debt. The cash flows will remain sufficient to fund premium payments as well.

The debt terms also require adequate liquidity cushion in form of three months DSRA and six months MMRA. Cash trap will be triggered if DSCR falls below 1.40 times, while there will be a cash sweep in case of negative impact on tollable traffic on account of an alternate route to the project roads. The structure also stipulates that any transfer to the distribution account will be made only post meeting debt obligation, DSRA and MMRA requirement, and transfer to the cash sweep account, if required.

The NCDs have a tenor of 3 years 3 months and 7 years for tranche-1 and tranche-2, respectively, exposing the trust to refinancing risk. However, the risk is mitigated by a long tail at the end of tenure of NCDs, ability of sponsors in refinancing and healthy revenue potential of the stretches.

As per InvIT guidelines, the debt must not exceed 49% of asset value (till six consecutive dividend distributions) and the same is also built into the final documents. CRISIL Ratings believes that the DSCR for the rated debt instruments is strong and is expected to remain well above the covenants throughout the debt tenure, supported by healthy toll collection and moderate leverage.

Experienced management team

HIT will benefit from the strong asset management ability of the Sponsor, which is invested in by KKR, which in turn has strong experience in the infrastructure space, including in India. While this is Galaxy's first investment in Indian roads, it benefits from KKR's experience in renewable energy and transmission sector in India. Additionally, the assets will be managed by experienced service providers VIIMPL, VREPMPL and HC1, who have a long track of managing these assets.

Weaknesses:

Susceptibility of toll revenue to volatility in traffic, or development or improvement of alternative routes

Toll collection is a major source of revenue and is susceptible to volatility because of toll leakages, competing routes, lack of timely increase in toll rates, fluctuation in WPI-linked inflation, seasonal variations in vehicular traffic, and economic downturns. For instance, traffic and toll collection across stretches was affected due to government policies like demonetisation in fiscal 2017 and the nation-wide lockdown following the pandemic in fiscal 2021 and 2022.

While the stretches do not face any substantial threat from alternate routes as of now, improvement of these routes or development of new alternate routes may affect traffic and diversion, if any, on account of any of these will be a key rating sensitivity factor.

Susceptibility to volatility in O&M and major maintenance costs and interest rates

The trust is exposed to risks related to maintenance of the projects in the underlying SPVs as per the specifications and within the budgeted costs. While the SPVs are expected to maintain six months equivalent MMRA, any significant dip in toll collection or unplanned maintenance activity could result in cash flow shortfall during years of such maintenance and will remain a rating sensitive factor.

The interest rate for the rupee term debt shall be floating with an annual reset linked to benchmark. This exposes the trust to volatility in interest rates. Although the cushion in the cash flow and a sub-limit for bonds under the overall debt that is are being raised at fixed rate, will partially help to absorb the impact of such fluctuations. However, it will remain a rating sensitivity factor.

Liquidity: Superior

Toll collections and annuity receipts will be adequate to meet operational expenses and debt obligation. Furthermore, a DSRA equivalent to three months' interest and principal obligation will be maintained along with MMRA equivalent to six months of MM expenses. Liquidity will also be supported by the cash trap provision, if the DSCR falls below 1.40 times. The limited amortising structure of the NCDs with substantial bullet repayment in fiscal 2026 and fiscal 2030 exposes the trust to refinancing risk. However, the risk is mitigated by long tail at the end of tenure of NCDs, ability of sponsors in refinancing and healthy revenue potential of the stretch.

Outlook: Stable

CRISIL Ratings believes that HIT will continue to generate healthy toll revenue over the medium term, backed by good traffic potential on the project stretches.

Rating Sensitivity Factors

Downward Factors:

- Lower-than-expected toll revenue by more than 10% on sustained basis or higher-than-expected maintenance cost affecting DSCR
- Higher-than-expected incremental borrowings
- Non-adherence to the structural features of the transaction
- Non maintenance of adequate liquidity reserves in the form of DSRA and MMRA
- Acquisition of weak assets with high debt and low revenue potential impacting overall DSCR
- Minimum DSCR falling below 1.5 times leading to lower buffer in relation to financial covenants

About the Company

HIT is registered as an irrevocable trust under Indian Trust Act, 1882, and as an InvIT under SEBI's Infrastructure Investment Trust Regulations, 2014 since December 23, 2021. HIT is sponsored by Galaxy, which is invested in by KKR, and has acquired an initial portfolio of six operational projects with four toll and two annuity roads.

KKR is a leading global investment firm with approximately US\$ 491 billion of assets under management as of June 30, 2022.

The broad details of the assets held by HIT, are provided below:

Jodhpur Pali Expressway Pvt. Ltd (JPEPL)

The stretch is the shortest route connecting Jodhpur to Pali measuring 71.5 km. It achieved provisional commercial operation date (PCOD) in fiscal 2015 and COD in fiscal 2018 and has a track record of more than 8 years with balance concession life of around 21 years. Traffic registered a CAGR of 2.3% between fiscals 2016 and fiscal 2022. The stretch has four alternate routes, but these are either two lane or longer than JPEPL's stretch and do not impact the traffic movement on the project road.

Godhra Expressways Pvt. Ltd

The stretch, measuring 87.1 km, provides connectivity for traffic plying from the Kandla and Mundra ports and moving towards central and east India. It achieved PCOD in fiscal 2014 and COD in fiscal 2017 and has a track record of over 9 years with balance concession life of around 21 years. Traffic registered a CAGR of 8.9% between fiscals 2016 and fiscal 2022. The stretch has no alternate routes.

Dewas Bhopal Corridor Pvt. Ltd (rated CRISIL AAA/Stable)

It is the shortest route between Indore (through Dewas) and Bhopal, two major cities of Madhya Pradesh and measures 140.8 km in length. Project achieved PCOD in fiscal 2009 and COD in fiscal 2011 and has a track record of over 13.5 years with balance concession life of around 10.5 years. Traffic registered a CAGR of 3.3% between fiscals 2016 and fiscal 2022. The stretch has no alternate routes.

UEPL

Connects Chennai to southern, eastern and western parts of Tamil Nadu and measuring around 72.9 km in length. Project achieved COD in fiscal 2010 and has track record of 13 years with balance concession life of around 4 years. Traffic registered degrowth in CAGR of ~0.44% between fiscals 2016 and fiscal 2022. There are no alternate routes to the project road.

Nirmal BOT Ltd

Connects Kadthal to Armur in the state of Telangana and has balance concession life of around 5 years. The project has track record of timely receiving 25 semi-annual annuities without any material deduction.

Shillong Expressway Pvt. Ltd

Project is part of Shillong bypass in the state of Meghalaya and has balance concession life of around 3.5 years. The project has track record of timely receiving 19 semi-annual annuities without any material deduction.

Key Financial Indicators

| Particulars | Unit | 2022 | 2021 |
|---------------------------------|----------|------|------|
| Revenue | Rs crore | NA | NA |
| Profit After Tax (PAT) | Rs crore | NA | NA |
| PAT Margin | % | NA | NA |
| Adjusted debt/adjusted networth | Times | NA | NA |
| Adjusted interest coverage | Times | NA | NA |

*Financial indicators not meaningful as HIT was incorporated in December 2021 and assets have been acquired in August 2022

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

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Annexure - Details of Instrument(s)

| ISIN | Type of instrument | Date of allotment | Coupon Rate (%) | Maturity date | Issue Size (Rs.Crore) | Complexity level | Rating assigned with outlook |
|--------------|----------------------------|-------------------|-----------------|---------------|-----------------------|------------------|------------------------------|
| NA | Term loan | NA | NA | Mar-2036 | 800 | NA | CRISIL AAA/Stable |
| INE0KXY07018 | Non-convertible debentures | 23-Sep-2022 | 7.71% | 22-Dec-2025 | 400 | Simple | CRISIL AAA/Stable |
| INE0KXY07026 | Non-convertible debentures | 23-Sep-2022 | 8.25% | 22-Sep-2029 | 250 | Simple | CRISIL AAA/Stable |

Annexure - Details of Rating Withdrawn

| ISIN | Type of instrument | Date of allotment | Coupon | Maturity date | Issue Size (Rs.Crore) | Complexity Level |
|------|--------------------|-------------------|--------|---------------|-----------------------|------------------|
|------|--------------------|-------------------|--------|---------------|-----------------------|------------------|

| | | | | | | |
|----|---------------------------------------|----|----|----|-----|--------|
| NA | Proposed long-term bank loan facility | NA | NA | NA | 200 | NA |
| NA | Non-convertible debentures | NA | NA | NA | 250 | Simple |

Annexure – List of Entities Consolidated

| Name of company | Type of consolidation | Rationale for consolidation |
|----------------------------------|-----------------------|-----------------------------|
| Jodhpur Pali Expressway Pvt. Ltd | Full consolidation | 100% subsidiaries |
| Godhra Expressways Pvt. Ltd | Full consolidation | |
| Dewas Bhopal Corridor Pvt. Ltd | Full consolidation | |
| Ulundurpet Expressways Pvt. Ltd | Full consolidation | |
| Nirmal BOT Ltd | Full consolidation | |
| Shillong Expressway Pvt. Ltd | Full consolidation | |

Annexure - Rating History for last 3 Years

| Instrument | Current | | | 2022 (History) | | 2021 | | 2020 | | 2019 | | Start of 2019 |
|-----------------------------------|---------|--------------------|-------------------|----------------|-------------------------------|------|--------|------|--------|------|--------|---------------|
| | Type | Outstanding Amount | Rating | Date | Rating | Date | Rating | Date | Rating | Date | Rating | Rating |
| Fund Based Facilities | LT | 1000.0 | CRISIL AAA/Stable | 07-09-22 | Provisional CRISIL AAA/Stable | | -- | | -- | | -- | -- |
| | | | | 11-03-22 | Provisional CRISIL AAA/Stable | | -- | | -- | | -- | |
| Non Convertible Debentures | LT | 650.0 | CRISIL AAA/Stable | 07-09-22 | Provisional CRISIL AAA/Stable | | -- | | -- | | -- | -- |
| | | | | 11-03-22 | Provisional CRISIL AAA/Stable | | -- | | -- | | -- | |

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

| Facility | Amount (Rs.Crore) | Name of Lender | Rating |
|--|-------------------|----------------------------|--------------------------|
| Proposed Long Term Bank Loan Facility | 200 | Not Applicable | Withdrawn |
| Term Loan | 250 | State Bank of India | CRISIL AAA/Stable |
| Term Loan | 50 | Axis Bank Limited | CRISIL AAA/Stable |
| Term Loan | 500 | ICICI Bank Limited | CRISIL AAA/Stable |

This Annexure has been updated on 22-Sep-22 in line with the lender-wise facility details as on 11-Mar-22 received from the rated entity.

Criteria Details

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|---|
| Links to related criteria |
| CRISILs rating criteria for REITs and InVITs |
| CRISILs criteria for rating annuity and HAM road projects |
| Rating Criteria for Toll Road Projects |
| Understanding CRISILs Ratings and Rating Scales |
| CRISILs Criteria for Consolidation |

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